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SUBJECT: State Council Researcher Says Local Officials'
Political Goals Pushed Rapid First Quarter GDP Growth

REF: Beijing 7519

11. (SBU) Summary: One of the State Council's leading macroeconomic researchers asserted that China's rapid GDP growth rate in the first quarter of 2006 (reftel) primarily was due to exaggerated economic growth reports from newly-installed local government officials seeking to make a good impression during their first evaluation periods. Local governments also increased the number of investment projects in late 2005, leading to faster-than-expected growth in early 2006, he said. The researcher stated that he expects GDP growth to continue at a fast clip through the first half of 2006 before cooling to a "normal" growth rate of approximately eight percent in the second half of the year. End Summary.

12. (SBU) Li Jianwei, Vice-Director of the Macroeconomic Research Department at the State Council's Development Research Center (DRC), briefed Embassy-sponsored visitors from the Defense Orientation Conference Association (DOCA) on China's macroeconomic situation on June 6. During the briefing (also attended by Econoffs), Li discussed GDP growth trends since 2000 and assessed rapid growth during the first quarter of 2006 (1Q06) that surpassed conservative government projections, reaching 10.3 percent (previously reported on April 20 as 10.2 percent).

DRC: Ten Percent Growth Should be Short-Term Phenomenon

13. (SBU) Li stated that GDP growth has averaged 8.2 percent annually since 2000 but hit 10.1 percent in 2005. Analysts were surprised, he said, by continued growth at more than 10 percent during the first quarter of 2006 when the growth rate reached 10.3 percent (reftel). According to Li, statistics from April and May indicate that 10 percent growth is a short-term phenomenon, and he predicted that by the third quarter, growth will have slowed to a more "normal growth" rate of eight percent. (Note: Li's comments echoed those of National Bureau of Statistics (NBS))

spokesman Zheng Jingping, who said on April 20 that growth would slow during the second half of the year and that first quarter growth still was "within the margins of GDP potential" (Reftel). End Note.)

Local Officials to Blame for First Quarter Spike

¶4. (SBU) According to Li, newly-installed local government officials are primarily to blame for the higher-than-expected growth rate, following a nationwide reshuffling of officials in 2005. While GDP growth is no longer the only economic indicator on which officials are judged for promotion, Li said the view that economic growth remains important for political promotion prospects encouraged many officials to launch new investment projects shortly after assuming their new positions. As a result, when these projects came on-line in early 2006, the GDP growth rate was unexpectedly high.

¶5. (SBU) At the same time, Li said, local government officials have little incentive to accurately report economic growth statistics, choosing instead to exaggerate growth figures for the sake of their own political agendas. Because the NBS relies heavily on provincial and local government statistical bureaus for data, local government officials disproportionately influence national statistics, Li stated. Local government officials' sense of urgency to impress their political bosses with high GDP growth rate numbers caused a temporary spike in the national growth rate due to the combination of both increased intentional statistical misreporting and a glut of new investment projects, Li said.

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Comment

¶6. (SBU) Despite attempts to revise the precepts for promotion in the Chinese political system, local government officials continue to view GDP growth as one of the most important indicators for advancing their own careers. In addition, misreporting by local governments is a historic problem in China, as officials seek to impress Central Government leaders and assure them that affairs are running smoothly in their localities. Li's comments and those of other interlocutors indicate that the Central Government is increasingly concerned about the reporting of statistics and how the NBS cooperates with its provincial and local counterparts to collect accurate statistics. Li's statements also raise questions about the ability of the Central Government, which is concerned about an overheating economy, to control speculative investments in localities. End Comment.

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